

# List of Vocabulary

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## IB Economics SL

- **economics** - study of rationing systems, study of how scarce resources are allocated to fulfill the infinite wants of consumers
- **opportunity cost** - the next best alternative foregone when an economic decision is made
- **utility** - measure of usefulness and pleasure
- **planned economies** - decisions of what to produce, how to produce, and who to produce for, are made by the government. all resources are collectively owned
- **free market economies** - all production is in private hands and demand and supply are left free to set wages and price in the economy. prices are used to ration goods and services
- **economic development** - measure of welfare, a measure of well-being
- **sustainable development** - development that meets the needs of the present without comprising the ability of future generations to meet their own needs
- **demand** - quantity of a good or service that consumers are willing and able to purchase at all different prices in a given time period
- **law of demand** - as the price of a product falls, the quantity demanded of the product will usually increase, *ceteris paribus*
- **quantity demanded** - the amount of good or service that consumers are willing and able to buy at a given price
- **normal goods** - as income rise, demand for product also rise
- **inferior goods** - as income rise, demand for product will fall (buys higher priced substitutes)
- **supply** - willingness and ability of producers to produce a quantity of good or service at any given price in a given time period
- **law of supply** - as price of product rises, quantity supplied of the product will usually increase, *ceteris paribus*





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- **quantity supplied** - amount of good or service people or businesses are willing and able to provide at a given price in a given time period
- **indirect taxes** - taxes on goods and services that are added to the price of products - decrease in supply by amount of tax
- **subsidies** - payments made by government to firms that will, in effect, reduce their costs - increase in supply by amount of subsidy
- **equilibrium** - a state of rest, self-perpetuating in the absence of any outside disturbance
- **price mechanism** - forces of supply and demand that move markets to equilibrium
- **consumer surplus** - extra satisfaction gained by consumers from paying a price that is lower than that which they are prepared to pay
- **producer surplus** - excess of actual earnings that a producer makes from a given quality of output, over and above the amount the producer would be prepared to accept for that output
- **community surplus** - sum of consumer and producer surplus - total benefit to society
- **allocative efficiency** - resources are allocated in the most efficient way from society's point of view
- **marginal social cost curve** - supply curve when we assume costs of industry are equal to costs of society
- **marginal social benefit curve** - demand curve when we assume the benefits in the market are equivalent to the benefits to society

- **elasticity** - measure of responsiveness - how much something changes when there is a change in one of the factors that determines it
- **price elasticity of demand** - measure of how much the quantity demanded of a product change when there is a change in the price of the product
  - $PED = \% \Delta Q_d / \% \Delta P$
- **cross elasticity of demand** - measure of how much the demand for a product changes when there is a change in the price of another product
  - + = substitutes
  - - = complements
  - 0 = not related
- **income elasticity of demand** - how much the demand for a product changes when there is a change in the consumer's income
  - + = normal or superior goods
  - - = inferior good
- **elasticity of supply** - a measure of how much the supply of a product changes when there is a change in the price of the product
  - $PES = \% \Delta Q_s / \% \Delta P$
- **commodities** = raw materials
- **maximum (low) price controls** - where government sets a maximum price, below the equilibrium price, which then prevents producers from raising the price above it (ceiling prices)
- **merit good** - goods that government thinks provide positive benefits for both people that use them and society as a whole
- **minimum (high) price controls** - where government sets a minimum price, above the equilibrium price, which then prevents producers from reducing the price below it - floor prices
- **public goods** - goods that aren't provided at all in a free market, but benefits societies
- **non-excludable** - impossible to stop other people consuming it once it has been provided

- **non-rivalrous** - when one person consuming the good or service, it does not prevent another person from consuming it as well
- **marginal utility** - extra satisfaction that a person gets by consuming one more unit of a good or service
- **sustainability** - exists where the consumption needs of the present generation are met without reducing the ability to meet the needs of future generations
- **saving** - foregoing current consumption to allow for consumption in the future
- **gross domestic product** - total value of all final goods and services produced in an economy in a year, regardless of who owns the productive assets
- **GNP/GNI** (gross national product/gross national income) - total income that is earned by a country's factors of production regardless of where the assets are located
- **NNI** - takes depreciation into account
  - $\text{NNI} = \text{GNI} - \text{depreciation}$
- Nominal GDP and real GDP
  - nominal - value at current prices
  - real GDP = nominal GDP adjusted for inflation
- **aggregate demand** - total spending on goods and services in a period of time at a given price level
- **consumption (C)** - total spending by consumers on domestic goods and services
- **investment (I)** - the addition of capital stock to the economy
- **net exports (X-M)**
  - **exports** - domestic goods and services bought by foreigners (inflow of expenditure)
  - **imports** - goods and services that are bought from foreign producers (outflow)
- **fiscal policy** - set of government policies relating to its spending and taxation rates
  - expansionary =  AD
- **monetary policy** - set of official policies governing the supply of money in the economy and the level of interest rates in an economy

- **aggregate supply** - total amount of goods and services that all industries in the economy will produce at every given price level
- **infrastructure** - large scale capital which is necessary for economic activity to take place
- **deflationary gap** - economy is in equilibrium at level of output that is less than full employment level of output
- **inflationary gap** - economy is in equilibrium at a level of output that is greater than the full employment level of output
- **unemployment** - people of working age who are without work, available for work, and actively seeking employment
- **unemployment rate** - number of people who are unemployed expressed as a percentage of the total labor force
- **labor force** - economically active population
- **inflation** - persistent increase in the average price level in the economy, usually measured through consumer price index (CPI)
- **deflation** - persistent fall in APL in economy
- **economic growth** - an increase in real GDP over time
- **Gini index** - derived from the Lorenz curve and is a ratio of the area between the line of equality and a country's Lorenz curve to the total area under the line of equality , the higher the Gini index, the higher the inequality
- **progressive taxes** - as income rises, people pay a higher proportion of this income in taxes
- **regressive taxes** - proportion of income paid in tax falls as income rises
- **proportional taxes** - proportion of income paid in tax is constant for all income levels
- **international trade** - exchange of goods and services between countries
- **free trade** - takes place between countries when there are no barriers to trade put in place by governments or international organizations / goods and services are allowed to move freely between countries
- **dumping** - selling by a country of large quantities of a commodity, at a price lower than its product cost, in another country

- **embargo** - extreme quota, complete ban on imports and is usually put in place as a form of political punishment
- **exchange rate** - the value of one currency expressed in terms of another currency
- **fixed exchange rate**
  - exchange rate regime where value of a currency is fixed to the value of another currency, to the average value of a selection of currencies, or to the value of some other commodity
  -  value of currency —> **revaluation**
  -  value —> **devaluation**
- **floating exchange rate**
  - exchange rate regime where value of currency is allowed to be determined solely by the demand for, and supply of, the currency on the foreign exchange market (no gov interference)
  -  value of currency —> **appreciation**
  -  value —> **depreciation**
- **managed exchange rate** - exchange rate regimes where currency is allowed to float, but with some element of interference from the government
- **balance of payment account** - record of value of all transactions between residents of one country and the residents of all other countries in the world over a given period of time (usually one year)
- **current account** - measure of the flow of funds from trade in goods and services, plus other income flows
  - **balance of trade in goods** - measure of the revenue received from the exports of tangible goods minus the expenditure on the imports of tangible goods over a given period of time
  - **balance of trade in services** - measure of the revenue received from the exports of services minus the expenditure on the imports of services over a given period of time

- **income** - measure of the net monetary movement of profit, interest, and dividends moving into an out of the country over a given period of time, as a result of financial investment abroad
- **current transfers** - measurement of the net transfers of money, made between countries when no goods or services change hands
- **capital account**
  - **capital transfers** - measure of the net monetary movements gained or lost through actions such as the transfers of goods and financial assets by migrants, debt forgiveness, death duties, etc.
- **financial account** - measures the net change in foreign ownership of domestic financial assets
  - **direct investment** - measure of purchase of long-term assets, where purchaser is aiming to gain a lasting interest in a company in another economy
  - **portfolio investment** - measure of stock and bond purchases, which are not direct investment since they do not lead to a lasting interest in a company
  - **reserve assets** - reserves of gold and foreign currencies which all countries hold
- **economic integration** - a process whereby countries coordinate and link their economic policies
- **bilateral trade agreement** - an agreement relating to trade between two countries
- **multilateral trade agreement** - an agreement relating to trade between multiple countries
- **trading bloc** - group of countries that join together in some form of agreement in order to increase trade between themselves and/or to gain economic benefits from cooperation on some level
- **preferential trading areas** - trading bloc that gives preferential access to certain products from certain countries (reducing but not eliminating tariffs)
- **free trade areas** - an agreement made between countries, where countries agree to trade freely among themselves, but are able to trade with countries outside of the free trade area in whatever way they wish

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- **custom unions** - agreement made between countries, where countries agree to trade freely among themselves, and they also agree to adopt common external barriers against any country attempting to import into customs union
- **common markets** - customs union with common policies on product regulation, and free movement of goods, services, capital, and labor
- **economic and monetary union** - common market with a common currency and common central bank
- **complete economic integration** - individual countries involved would have no control of economic policy, full monetary union, and complete harmonization of fiscal policy